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**Affinity marketing, a concept based on marketing to group memberships, originated in 1987. Because of recent mergers and acquisitions, the concept is gaining momentum and having a significant impact in major Texas residential markets.**

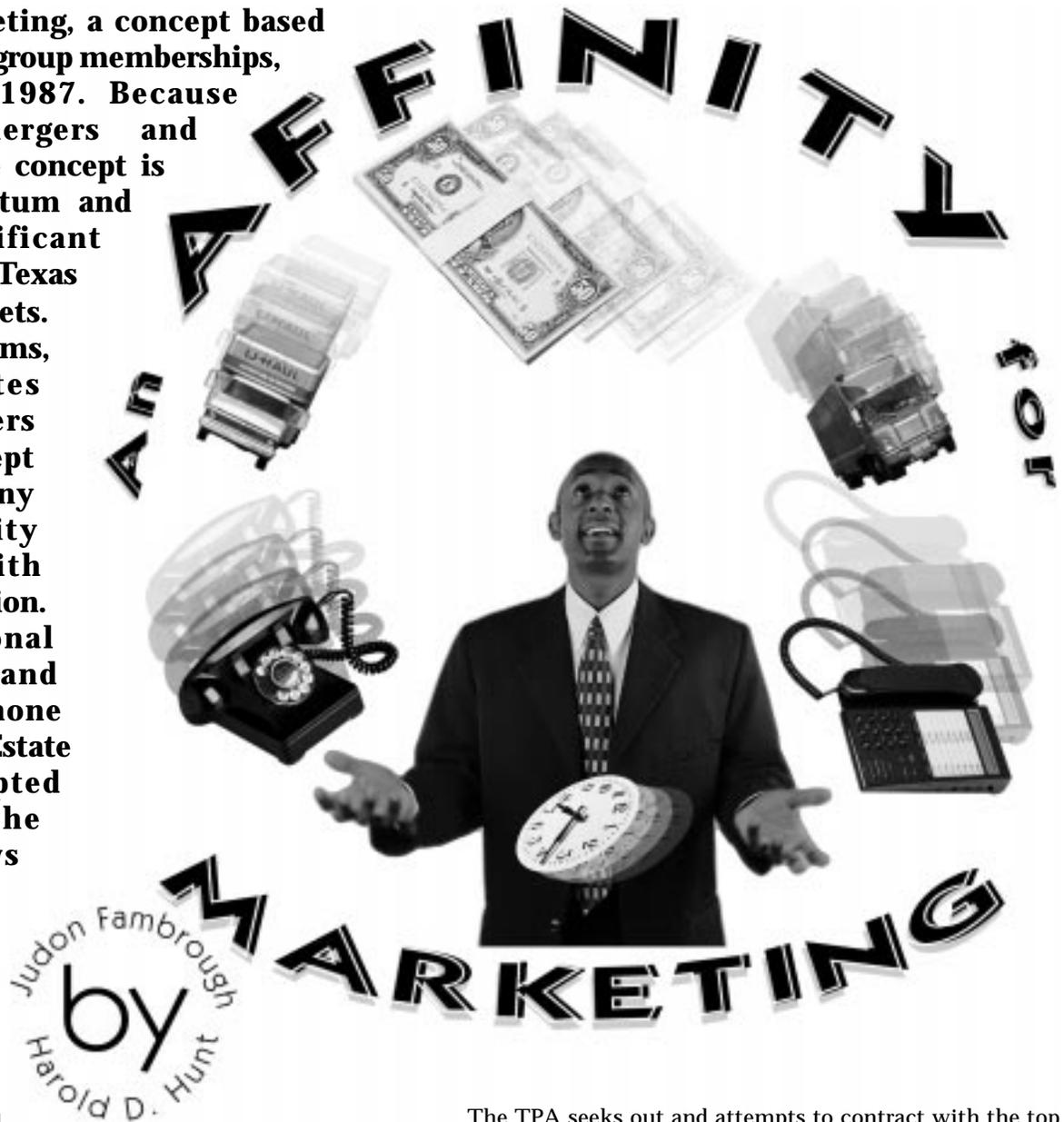
**Real estate firms, sales associates and consumers view the concept differently. Many confuse affinity marketing with corporate relocation. Through personal interviews and confidential phone calls, the Real Estate Center attempted to assess the different views within each group and to explain the variations. A brief overview follows.**

### **Affinity Marketing Differs from Corporate Relocation**

**A**ffinity marketing begins with the existence of affinity groups. The primary affinity groups located in Texas that affect real estate marketing include USAA (United Services Automobile Association), American Airlines, Amway and Argonaut. Group membership is acquired by a certain status, in the case of USAA, or by enrollment in the case of American Airlines.

Third parties offer members of affinity groups discounted services, rebates or other benefits for participating in certain marketing programs such as real estate. Third parties also approach real estate firms giving them the opportunity to handle the participating affinity members.

For their efforts, the third parties (better known as Third Party Administrators [TPAs]) receive, among other things, a referral fee from the brokerage firm. In Texas, Cendant Mobility is the largest TPA.



The TPA seeks out and attempts to contract with the top real estate firms in each market so participating affinity group members receive quality service. Generally, the TPA contracts with firms as primary and secondary providers in each market. The TPA chooses the firms based on past market performance.

If an agreement is reached, the TPA exacts a fee from both the primary and secondary providers, ranging from a few hundred dollars for the secondary providers to several thousand for the primary provider, based on the size of the market. In addition, the TPA receives 30 to 35 percent of the commission for each referral that closes, except for special properties.

The brokerage firms may incur additional time and expense training their sales associates for the level of expertise acceptable to the affinity group. Salespeople attend periodic training sessions sponsored by the TPA at the real estate firm's expense. Once a referral is received, sales associates file regular status reports with the TPA. After closing, the client (consumer) grades the sales associate's performance.

As a general rule, qualified sales associates accept referrals on a voluntary basis within a firm. If they are busy with regular consumers or do not have time, the referral is assigned to another qualified associate.

Brokerage firms handle fee splits differently. Two methods were observed. Sales associates prefer that the referral fee be taken off the top with the associate's normal fee split on the remaining balance. A few firms, however, alter normal fee splits when dealing with affinity marketing groups (for particular sales associates).

**C**orporate relocation functions in much the same manner as affinity marketing, except the privilege of using the service occurs when a company transfers an employee to another community. As before, a third party, under contract with the employer, administers the program.

Employees receive benefits based on the number of the employer's relocation programs they use. For example, if they use the mortgage and real estate programs, all or a part of the closing costs may be paid by the employer. Generally, there are no cash rebates.

If the employee wishes to use the real estate program, the TPA contacts brokers in the respective cities where the sale and purchase will occur. If closing occurs, approximately 30 to 35 percent of the commission is paid as a referral fee. Problems arise when the TPA asks for an "after-the-fact referral" when employees seek and employ their own sales associate.

In some cases, real estate firms accepting relocation business pay an initial lump-sum fee to become a provider. Likewise, the sales associates may undergo special training. However, periodic paperwork must be prepared and filed.

Some relocation plans provide for the TPA or the company transferring the employee to purchase the employee's home if it is not sold within a certain period. Real estate sales associates may be authorized to fix up or repair the home on behalf of the company. Neither of these features exist under affinity marketing.

## **Do Real Estate Firms Benefit from Affinity Group Business?**

A satisfied customer and monetary benefits to the real estate firm are the major factors in any real estate transaction. Brokerage firms reap financial benefits when costs associated with affinity marketing are more than offset with additional business. A different picture emerges in markets where the volume of referrals does not cover costs.

Some firms in less active markets continue their association with the affinity group hoping the market may change. Others continue because they feel the signs posted on property and the contacts they make with new clients create additional future business. These assumptions may or may not prove true.

Two suggested benefits, proffered before the survey, were that affinity marketing reduces advertising costs and carries a higher-than-average closing rate. Regarding the first point, no firm in the survey agreed. Firms must advertise aggressively to maintain their market position and retain the affinity group business.

Regarding the second point, the firms contacted agreed that corporate relocation referrals carry a higher closing rate than affinity group business. However, with the exception of USAA members, affinity group referrals produced a closing rate that was "no better" than other business.

One non-Texas firm withdrew its affiliation with an affinity marketing partner even though the economics indicated a benefit. The firm already dominated the market and the

referrals represented business the firm would receive anyway. Furthermore, existing clients making local moves crossed over to use the affinity service for the rebates. Essentially, the firm received the same business but with reduced commissions.

Even in Texas, some firms weighed the "crossover" factor when considering an affinity relationship. Crossovers represent local clients who use the affinity group relationship for the fringe benefits, such as rebates.

Finally, a Chicago brokerage-owner welcomes all referral business for two reasons. First, the referrals generate a steady, dependable revenue stream. Second, by having the referrals come directly to the office, as opposed to being generated by sales associates, the owner felt more in control of the business and less dependent on agents. The referral business did not follow sales associates when they left the firm.

Because of the control factor, many brokerage firms consider assigning all affinity referrals to licensed, salaried employees.

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However, the negative impact on associates often negates implementation.

## **Do Sales Associates Benefit from Affinity Group Business?**

The bottom line to sales associates in real estate transactions is customer satisfaction and profitability. However, sales associates incur lower fixed costs, but higher variable costs, than brokerage firms. Sales associates seek to maximize returns based on time expended.

As a general rule, sales associates who have the time and need new business take referrals. Referrals do not generate the same returns as non-affinity clients. However, in hot markets, where referrals close more quickly than non-referrals, some licensees, even top ones, take all the referral business they can get. One top performer reported receiving enough business to pay a private secretary to fill out and file all the required forms with the TPA. The person stated that referral fees would have to exceed 50 percent before she would decline the business.

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Not all comments about affinity marketing were positive. Here were some of the negative perceptions.

First, some of the personnel employed by the TPA lacked knowledge concerning local real estate markets. One broker related that a TPA employee told a client that Brownsville was located on the coast. Another broker bought lunch for all the TPA employees she worked with for the opportunity to explain the local market and the closing process.

**S**econd, some sales associates felt pressured to promote the TPA's mortgages. The TPA sends periodic reports indicating the number of referred clients that purchase TPA's mortgages. Anything less than 50 percent is listed as "unacceptable." One firm declined affiliation with an affinity marketing group because the firm had its own in-house mortgage company.

Third, TPA referrals require more paperwork. Some sales associates feel the paperwork is never read.

Fourth, some sales associates dislike the discipline required by the TPA. They prefer to manage their clients using their

own routines and schedules. They resist dictated deadlines. Affinity relationships threaten their independence.

Fifth, on more of an economic note, sales associates resist firms reducing the normal fee split after deducting the referral fee. This reduced split creates a negative attitude toward referrals within the firm. As might be expected, sales associates tend to embrace affinity business more positively when the normal fee split prevails.

On a similar note, the non-Texas firm that withdrew affiliation with affinity groups felt that the referral fees drove top performers to non-affiliated firms. Likewise, the affiliation hindered recruitment of top performers.

## Do Consumers Benefit from Affinity Marketing?

**W**hat affinity relationships add to the transaction, apart from the rebate or mileage, largely depends on the distance of the move and the consumer's knowledge of the market and sales associates in the area.

Consumers, as a whole, voice favorable opinions about affinity relationships. One customer, who made a cross-country move, praised the level of service. The sales associate provided pertinent information about the area's schools, churches, and so forth and reduced the time needed to make an informed decision. The customer felt free to ask for another sales associate if dissatisfied or a conflict developed. In fact, she would use the service again, even if no rebates were offered.

Another customer, a crossover making a local move, was satisfied with the service because he knew and requested a particular sales associate. Having lived in the area for several years, he was familiar with the market. His primary reason for using the affinity group relationship was the rebate.

Consumers place high marks on accountability. Anytime they needed information about an area, the status of a pending contract or other pertinent details, it was provided in a timely manner. Of course, the customer's ability to rate the sales associate after closing heightened accountability.

When real estate firms and sales associates were asked whether consumers receive the assistance of top sales associates in a market, the response was "not necessarily." All agreed that consumers receive service from the top firm that contracts with the TPA. However, as noted earlier, even within the top contracting firm, consumers may receive the services of a mid- to entry-level sales associate. Top performers are more likely to have their own clientele to serve, and may choose to spend little time on referrals.

At the same time, receiving the services of a top performer may not be in the client's best interest. Other factors play an important role in a successful transaction. Brokerage firms take into account similarity of ages, backgrounds and interests, nationality, language and other individual traits when assigning a sales associate.

The level of service may vary when the property is at either end of the price spectrum. If consumers seek to buy or sell property on the lower end, top or mid-performers may feel the reduced commission does not justify their time. Buyers and sellers on the upper end may find that the top firms specializing in that market decline affiliation with affinity groups for economic reasons.

When brokerage firms and sales associates were asked if the level of service given to affinity referrals differed from non-affinity consumers, they unanimously agreed that both groups receive the same treatment. However, they commented

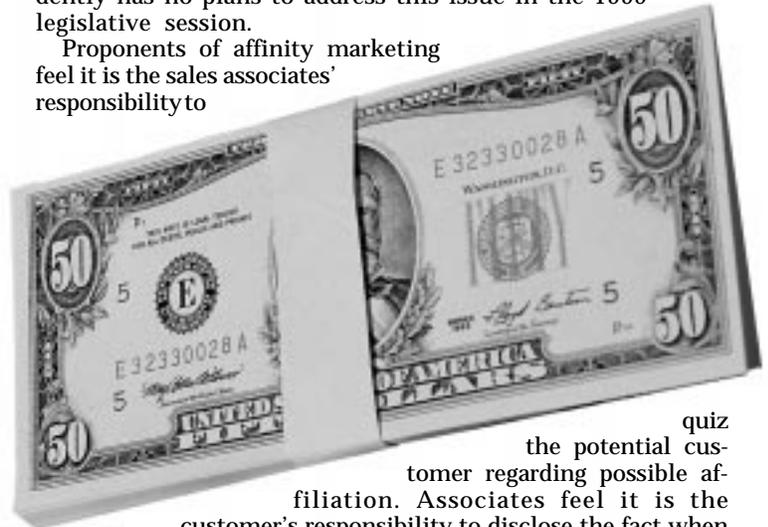
that the level of service demanded by the various affinity groups differs.

## Are Firms and Sales Associates Legally Obligated to Pay After-the-Fact Referral Fees?

Occasionally, members of an affinity group want to use the group's real estate program but fail to follow proper channels. Instead of allowing the TPA to locate and contact a participating brokerage firm, the members make personal contact without informing the agent of the affinity relationship. The sales associate learns of the affiliation at closing when the TPA demands a referral fee.

In Texas, no legal precedents dictate the payment of after-the-fact referral fees. Sales associates generally pay the fee because of the TPA's threats to eliminate future referral business. Several states passed statutes prohibiting the practice. However, Texas has no statutory prohibition and evidently has no plans to address this issue in the 1999 legislative session.

Proponents of affinity marketing feel it is the sales associates' responsibility to



quiz the potential customer regarding possible affiliation. Associates feel it is the customer's responsibility to disclose the fact when enlisting their services. To avoid the confrontation, prudent sales associates inquire upon first contact with a potential client about affinity relationships.

One argument can be made that not paying the after-the-fact referral fee violates the Canons of Ethics. Real estate brokers and agents cannot place personal interest above that of the client (Title 22 of the Texas Administrative Code [TAC] Section 531.1[3]). This could occur if the client is denied a rebate or other benefits because of the non-payment of the referral fee.

An El Paso broker devised a unique approach. He offers to reimburse the TPA for the economic value it contributed to the transaction. He then offers to compensate the customer for any benefits they would have received under the program.

In summary, interviews conducted by the Real Estate Center brought to light the variety of opinions about affinity marketing. It is obvious there is no consensus, and the debate over its pros and cons will continue.

This article attempted to explain the concept of affinity marketing, identify the issues and promote a general understanding of the various viewpoints. The future of affinity marketing, however, will be determined in the marketplace. □

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